

Californians' Support for Structural Reforms and Public Priorities

Mark Baldassare

Testimony for the Public Hearing on the Roadmap for Reform
Little Hoover Commission
State Capitol Building
Sacramento, California
January 22, 2004

**Public
Policy
Institute of
California**

The Public Policy Institute of California (PPIC) is a private operating foundation established in 1994 with an endowment from William R. Hewlett. The Institute is dedicated to improving public policy in California through independent, objective, nonpartisan research.

PPIC's research agenda focuses on three program areas: population, economy, and governance and public finance. Studies within these programs are examining the underlying forces shaping California's future, cutting across a wide range of public policy concerns, including education, health care, immigration, income distribution, welfare, urban growth, and state and local finance.

PPIC was created because three concerned citizens – William R. Hewlett, Roger W. Heyns, and Arjay Miller – recognized the need for linking objective research to the realities of California public policy. Their goal was to help the state's leaders better understand the intricacies and implications of contemporary issues and make informed public policy decisions when confronted with challenges in the future.

David W. Lyon is founding President and Chief Executive Officer of PPIC. Raymond L. Watson is Chairman of the Board of Directors.

Copyright © 2004 by Public Policy Institute of California
All rights reserved
San Francisco, CA

Short sections of text, not to exceed three paragraphs, may be quoted without written permission provided that full attribution is given to the source and the above copyright notice is included.

PPIC does not take or support positions on any ballot measure or on any local, state, or federal legislation, nor does it endorse, support, or oppose any political parties or candidates for public office.

Research publications reflect the views of the authors and do not necessarily reflect the views of the staff, officers, or Board of Directors of the Public Policy Institute of California.

Contents

Introduction	v
MARCH 2 ND PRIMARY ELECTION	1
POLITICAL AND ECONOMIC CLIMATE	3
STATE FISCAL POLICY	7
Conclusion	13

Introduction

Good morning Mr. Chairman and distinguished members of the Little Hoover Commission. My name is Mark Baldassare. I am Research Director and Survey Director at the nonpartisan Public Policy Institute of California in San Francisco, where I hold the Arjay and Frances Fearing Miller Chair in Public Policy. As a way of introduction, the PPIC Statewide Survey series provides policymakers, the media, and the general public with objective, advocacy-free information on the perceptions, opinions, and public policy preferences of California residents. Started in April 1998, the survey series has generated a database that includes the responses of more than 85,000 Californians.

I appreciate the opportunity to speak with you regarding public opinion on the state's fiscal conditions and options. Specifically, I understand that the commission would like to hear about the following issues: (1) the disagreement among Californians that contributes to the current gridlock, (2) areas of agreement and disagreement on the role of government, (3) areas of disagreement that could be influenced by education, and (4) Californians support for reform of the state revenue system.

As I mentioned to Mr. Shoemaker at the time that he asked for my testimony, what I have to offer for your discussion today is a public opinion survey that was conducted from January 3rd to 11th and released to the public last week. I offer the entire report for your consideration, and I will briefly review the relevant findings. The current survey is the second in a series of special surveys on the California State Budget and Fiscal System, conducted in collaboration with The James Irvine Foundation. This survey series seeks to raise public awareness, inform decisionmakers, and stimulate public discussions about the current state budget and the underlying state and local finance system. This report presents the responses of 2,002 adult residents throughout the state on a wide range of issues:

- The March 2nd primary, including Proposition 55 (\$12.3 billion education bond), Proposition 56 (state budget and voting requirements initiative), Proposition 57 (\$15 billion economic recovery bond), and Proposition 58 (California balanced budget act).
- The political and economic climate, including the public's perceptions of the most important problem in California, general perceptions about the state and its economy, trust in state government officials and their handling of fiscal issues, overall rating of Governor Schwarzenegger and the state legislature, and approval ratings of their handling of state budget issues.
- State fiscal policy, including spending, borrowing, and tax preferences involving the current state budget deficit, support for structural fiscal reforms of the state budget process, and general attitudes toward the state's fiscal policymaking process.

March 2nd Primary Election

The March primary ballot will include four state propositions (55, 56, 57, and 58) that would directly affect the state's fiscal policies and condition. Proposition 55 is a \$12.3 billion bond issue that would provide funding for public education facilities from kindergarten through university. This bond measure, which the legislature put on the ballot before the recall election in October, currently has a slim majority of support: Fifty percent of likely voters support it, 38 percent are opposed, and 12 percent are not sure. Support correlates with perceptions about the adequacy of local public school funding. Sixty percent of likely voters believe that the current state funding for their local schools is inadequate.

"If the election were held today, would you vote yes or no on Proposition 55 (Education Facilities Bond)?"

	Likely Voters
Yes	50%
No	38
Don't know	12

Proposition 56 is a citizens' initiative and constitutional amendment on the March ballot that lowers the majority required for the state legislature to pass a budget and budget-related bills from two-thirds to 55 percent. For each day the budget is late, the governor and legislature would lose salary and expenses, and the legislature would be required to stay in session until the budget passed. If the election were held today, 41 percent would vote yes on Proposition 56, 35 percent would vote no, and 24 percent are undecided. The lack of majority support for Proposition 56 is related to the fact that 73 percent of voters think that requiring a two-thirds vote to pass the state budget is a good thing.

"If the election were held today, would you vote yes or no on Proposition 56 (State Budget Voting)?"

	Likely Voters
Yes	41%
No	35
Don't know	24

Following the recall election, Governor Arnold Schwarzenegger and the state legislature placed two fiscal measures on the state ballot, Propositions 57 and 58. They must both pass in order for either to take effect. Proposition 57, the Economic Recovery Bond Act, would allow the issuance and sale of a one-time state bond of up to \$15 billion for paying off accumulated state budget debt. Among likely voters, 35 percent would currently vote yes, 44 percent would vote no, and 21 percent are undecided.

“If the election were held today, would you vote yes or no on Proposition 57 (Economic Recovery Bond)?”

	Likely Voters
Yes	35%
No	44
Don't know	21

Proposition 58 would require the state to pass a balanced budget, address fiscal emergencies, and establish a budget reserve. At this stage, the yes vote on Proposition 58 leads the no vote among likely voters by 57 percent to 22 percent, while 21 percent are undecided. Does Schwarzenegger’s endorsement of Propositions 57 and 58 affect voters’ attitudes toward this bond measure? At this point, about half say the governor’s endorsement makes no difference to them, while one in three say the governor’s support makes them feel more favorably toward these ballot measures.

“If the election were held today, would you vote yes or no on Proposition 58 (California Budget Act)?”

	Likely Voters
Yes	57%
No	22
Don't know	21

Political and Economic Climate

What is the political and economic climate in which attitudes toward the fiscal system are being shaped today? Two months into his term as governor, six in 10 California adults approve of the way that Schwarzenegger is handling his new role, while only one in five disapproves. By contrast, in September 2003, one month before he was recalled from office, former governor Gray Davis's job approval rating was only 31 percent, with 65 percent of Californians saying they disapproved of the job he was doing as governor. Schwarzenegger's approval ratings on handling the state budget and taxes are almost as strong as his overall ratings: 54 percent approve, 26 percent disapprove, and 20 percent are undecided.

"Overall, do you approve or disapprove of the way that Arnold Schwarzenegger is handling his job as governor of California?"

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Approve	59%	46%	87%	62%	64%
Disapprove	22	27	3	18	17
Don't know	19	27	10	20	19

Compared to the governor's ratings, Californians' assessments of the state legislature are much lower. Only 36 percent approve of the overall job the state legislature is doing, while 45 percent disapprove. However, these current evaluations of the state legislature represent a significant improvement since August 2003, when 28 percent of Californians approved of the legislature and 58 percent disapproved. The legislature's approval rating is lower on the issue of the state budget and taxes, with a majority (52%) disapproving and only 28 percent approving of its performance in these areas. However, these ratings are an improvement over August 2003, when 71 percent disapproved and 19 percent approved of the legislature's performance on fiscal issues

"Overall, do you approve or disapprove of the job the California legislature is doing at this time?"

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Approve	36%	36%	33%	36%	34%
Disapprove	45	44	51	51	50
Don't know	19	20	16	13	16

California's budget issues are clearly perceived by residents as the top priority for state leaders' attention this year. Three in 10 residents (31%) say that fiscal concerns (the state budget, deficit, and taxes) are the most important issue for the governor and state legislature to work on in 2004, followed by the economy and jobs (21%), and education and schools (15%). Over time, there has been a steady increase in the public's concern over the fiscal issues confronting the state. The state budget and taxes are considered the most important issue by respondents in all political parties. Seven in 10 residents describe the state's budget situation as a big problem, while 24 percent say it is somewhat of a problem.

"Which one issue facing California today do you think is the most important for the governor and state legislature to work on in 2004?"

		<u>Region</u>				Latinos
		All Adults	Central Valley	SF Bay Area	Los Angeles	Other Southern California
State budget, deficit, taxes	31%	41%	29%	25%	30%	14%
Economy, jobs, unemployment	21	16	24	23	20	21
Education, schools	15	14	18	16	14	18
Immigration, illegal immigration	8	8	5	10	9	13
Health care/costs, HMOs	5	3	4	6	4	6
Crime, gangs	2	2	0	2	2	4
Other (<i>specify</i>)*	9	7	11	10	11	10
Don't know	9	9	9	8	10	14

* No single issue mentioned by more than 1 percent of Californians.

California's mood has undergone a remarkable turnaround, and today similar numbers of state residents say the state is going in the right direction (43%) and the wrong direction (40%). In September 2003, prior to the recall election, 67 percent of all Californians said the state was headed in the wrong direction.

"Do you think things in California are generally going in the right direction or the wrong direction?"

	All Adults	<u>Party Registration</u>			Likely Voters
		Dem	Rep	Ind	
Right direction	43%	34%	59%	39%	44%
Wrong direction	40	48	28	42	40
Don't know	17	18	13	19	16

Looking to the next 12 months, 49 percent of Californians expect good economic times and 36 percent expect bad economic times. The percentage predicting good times has climbed by 17 points since September 2003, while the percentage expecting bad times has dropped by 14 points.

“Turning to economic conditions in California, do you think that during the next 12 months we will have good times financially or bad times?”

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Good times	49%	39%	67%	52%	51%
Bad times	36	45	19	36	34
Don't know	15	16	14	12	15

Despite their approval of the job performance of their newly elected governor, Californians remain skeptical about the state government in Sacramento, with just 27 percent saying it can be trusted to do what is right just about always or most of the time, the same as last September (27%), when we reported that it was at an historic low for our survey series. Fifty-six percent of Californians think the state government wastes a lot of the money paid in taxes. Two in three Californians (65%) see the state government as pretty much run by a few big interests looking out for themselves. The percentage of residents who today think the state government is run by and for a few big interests looking out for themselves is higher than in the January 2002 survey (54%) or January 2001 survey (60%).

“How much of the time do you trust the state government in Sacramento to do what is right?”

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Just about always	5%	5%	4%	2%	4%
Most of the time	22	23	19	20	22
Only some of the time	64	66	66	71	66
None of the time, not at all (volunteered)	6	5	9	6	7
Don't know	3	1	2	1	1

“Do you think the people in state government waste a lot of the money we pay in taxes, waste some of it, or don't waste very much of it?”

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
A lot	56%	50%	70%	56%	58%
Some	35	41	27	41	35
Not very much	5	6	2	2	4
Don't know	4	3	1	1	3

State Fiscal Policy

Turning to fiscal attitudes, how should the state government approach the budget deficit according to the public? Today, 50 percent of Californians say the state should deal with its structural deficit—which is defined as the multibillion dollar gap between state spending and state revenue—through a mix of spending cuts and tax increases. Twenty-eight percent think the state should deal with its structural deficit mostly through spending cuts, and 7 percent say mostly through tax increases. This is a highly partisan issue: Significant majorities of independents (65%) and Democrats (63%) think that a mix of spending cuts and tax increases is the best way to deal with the deficit. Republicans are more in favor of using mostly spending cuts (47%) than a mix of cuts and taxes (40%).

**“How would you prefer to deal with the state's structural deficit
(the multibillion dollar gap between state spending and state revenue) ...”**

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Mixture of spending cuts and tax increases	50%	63%	40%	65%	53%
Mostly through spending cuts	28	16	47	20	30
Okay for the state to borrow money and run a budget deficit	8	6	6	3	5
Mostly through tax increases	7	8	4	6	6
Don't know / Other answer	7	7	3	6	6

Altogether, 78 percent of Californians say that spending cuts should be part of the plan to deal with the deficit. This perception is consistent with the fact that 67 percent of residents think the state government could spend less and still provide the same level of services as it does today. Large majorities of Republicans (78%), independents (75%), and Democrats (59%) share this belief. Forty percent of those who think the state could cut spending say that the state could cut from 10 percent to less than 20 percent—while 31 percent say the state could cut more than 20 percent—without reducing services.

**“In general, do you think the state government could spend less
and still provide the same level of services?”**

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Yes, could spend less	67%	59%	78%	75%	67%
No, could not spend less	27	33	18	23	27
Don't know	6	8	4	2	6

When asked which of the four largest areas of state spending they would most want to protect from spending cuts, a majority of Californians (59%) choose K-12 public education. Fewer choose health and human services (19%), higher education (13%), or youth and adult corrections (5%).

“What one area of state spending would you most want to protect from spending cuts ...”

	All Adults	<u>Party Registration</u>			Likely Voters
		Dem	Rep	Ind	
K-12 public education	59%	55%	62%	63%	58%
Health and human services	19	23	16	17	21
Higher education	13	13	12	12	12
Youth and adult corrections	5	5	6	4	6
Don't know	4	4	4	4	3

If the state said it needed more money just to maintain current K-12 education funding, 67 percent of all Californians say that they would be willing to pay higher taxes for this purpose. Democrats (77%) and independents (70%) are more committed than Republicans, who are rather evenly divided about whether they would (50%) or would not (47%) be willing to pay higher taxes for this purpose.

Majorities of Californians are also willing to pay higher taxes just to maintain state funding for local government services (56%) and for health and human services (54%). Majorities of Democrats and independents would pay higher taxes to keep current state funding in both of these areas, while fewer than half of Republicans favor tax increases to maintain funding for these two areas.

“Would you be willing to pay higher taxes just to maintain current funding for ...”

		All Adults	<u>Party Registration</u>			Likely Voters
			Dem	Rep	Ind	
K-12 public education	Yes	67%	77%	50%	70%	64%
	No	30	20	47	27	33
	Don't know	3	3	3	3	3
Local government services	Yes	56%	62%	46%	59%	57%
	No	40	35	50	36	39
	Don't know	4	3	4	5	4
Health and human services	Yes	54%	66%	31%	51%	50%
	No	41	27	65	42	44
	Don't know	5	7	4	7	6

Californians' general attitude toward state borrowing is a significant issue, as voters face specific fiscal decisions at the ballot box this March. As a starting point, few residents report having deep knowledge about how the state pays for bonds, and many say they know very little or nothing. Despite how few understand bond financing, 84 percent of Californians are concerned about passing state debt on to future generations. In general, many residents have difficulty accepting the argument that borrowing money is a good idea for reducing the deficit. Today, only 31 percent of Californians are in favor of the state's borrowing money to help reduce the structural deficit while 61 percent are opposed.

"How concerned are you about passing state debt to future generations of Californians?"

	All Adults	<u>Age</u>		Likely Voters
		18 to 44	45 +	
Very concerned	44%	38%	51%	52%
Somewhat concerned	40	44	34	35
Not too concerned	11	13	9	9
Not at all concerned	5	5	6	4

Californians hold some strong opinions about the kinds of state tax increases they favor and oppose. Seventy-six percent of Californians favor increasing taxes on the purchase of cigarettes and alcoholic beverages to help reduce the state's deficit, and 71 percent support raising the top rate on the state income tax paid by the wealthiest Californians. However, only 37 percent favor raising the state sales tax, and 27 percent support favor increasing the vehicle license fee (VLF) to help fund local government services.

"Do you favor or oppose ..."

		All Adults	<u>Party Registration</u>			Likely Voters
			Dem	Rep	Ind	
<i>Increasing taxes on the purchase of cigarettes and alcoholic beverages?</i>	Favor	76%	80%	66%	80%	75%
	Oppose	23	18	32	19	23
	Don't know	1	2	2	1	2
<i>Raising the top rate of the state income tax paid by the wealthiest Californians?</i>	Favor	71%	84%	48%	73%	69%
	Oppose	26	13	50	24	28
	Don't know	3	3	2	3	3
<i>Raising the state portion of the sales tax?</i>	Favor	37%	44%	34%	38%	40%
	Oppose	60	53	63	59	56
	Don't know	3	4	3	3	4
<i>Increasing the vehicle license fee or so-called "car tax" to pay for local government services?</i>	Favor	27%	38%	15%	28%	29%
	Oppose	71	60	84	70	69
	Don't know	2	2	1	2	2

Californians are somewhat receptive to spending and tax reforms designed to address the structural issues in the state budget. For instance, 60 percent of state residents think that the state should change the way it taxes ordinary Californians, and 33 percent say these should be “major” changes.

When the general concepts are explained, two proposals for structural fiscal reform enjoy strong public support. Seven in 10 state residents favor a spending limit that would tie state spending to a formula including current spending levels, economic growth, and population growth. Six in 10 favor a proposal to change the tax rules under Proposition 13, in which both residential and commercial property taxes are strictly limited, and have commercial properties taxed according to their current market value. Republicans are more evenly divided about whether this is a good idea or not (50% to 44%). Californians are less supportive of two other structural reforms: Forty-five percent of residents think that replacing the two-thirds ballot requirement to raise local taxes with a 55 percent majority vote is a good idea, and 37 percent of state residents think it is a good idea to extend the state sales tax to services.

		All Adults	Party Registration			Likely Voters
			Dem	Rep	Ind	
<i>How about strictly limiting the amount of money that state spending could increase each year by a formula that considers the current spending levels, economic growth, and population growth?</i>	Good idea	70%	67%	74%	74%	71%
	Bad idea	20	23	18	21	20
	Don't know	10	10	8	5	9
<i>Under Proposition 13, residential and commercial property taxes are both strictly limited. What do you think about having commercial properties taxed according to their current market value?</i>	Good idea	60%	69%	50%	56%	60%
	Bad idea	33	24	44	37	34
	Don't know	7	7	6	7	6
<i>How about replacing the two-thirds requirement for voters to pass local special taxes with a 55 percent majority vote?</i>	Good idea	45%	47%	36%	46%	43%
	Bad idea	47	45	59	49	51
	Don't know	8	8	5	5	6
<i>How about extending the state sales tax to services that are not currently taxed, such as legal and accounting services, auto repairs, haircuts, etc.?</i>	Good idea	37%	38%	31%	44%	35%
	Bad idea	59	58	66	53	61
	Don't know	4	4	3	3	4

When it comes to the tough choices involved in the current state budget, 33 percent prefer Governor Schwarzenegger's approach, 27 percent prefer the Democratic legislators', and 17 percent the Republican legislators' approach. Schwarzenegger's approach to taxes and spending is favored by 50 percent of Republicans, while the Democratic legislator's approach is favored by half of the Democrats.

Overall, the recent recall election has made 49 percent of Californians feel more optimistic about finding a solution to the state's budget problems. The recall made 85 percent of Republicans, 51 percent of independents, and 33 percent of Democrats more optimistic. Only 21 percent of Californians say that the recall has left them more pessimistic, and 26 percent say that it makes no difference.

In closing, when it comes to the long-term issues of reforming the state budget process, 65 percent of all Californians, and 62 percent of the state's likely voters, would prefer that California voters decide at the ballot box how to change the way the state taxes and spends money. Only 27 percent of residents would prefer that the governor and the legislature make these decisions by passing new laws.

"When it comes to long-term issues of reforming the state budget process, both in terms of changing the way the state taxes and the state spends money, which approach do you most prefer ..."

	All Adults	<u>Party Registration</u>			Likely Voters
		Dem	Rep	Ind	
California voters should decide at the ballot box	65%	65%	67%	58%	62%
Governor and legislature should pass new laws	27	29	26	36	31
Other answer (<i>specify</i>)	2	2	3	2	2
Don't know	6	4	4	4	5

Conclusion

In response to your initial questions, I would like to offer the following conclusions:

1. On the disagreements among Californians that contribute to the current fiscal gridlock: We find that there are large partisan differences between Republicans and Democrats on tax increases.
2. On the areas of agreement and disagreement on the role of government: There is consensus on a lack of trust in state government on issues of effectiveness, efficiency, and responsiveness; a widely held perception that the state waste's the taxpayer's money; a strong desire to make funding for public schools a state priority; consensus that the voters should make the decisions on structural fiscal reforms; and fundamental difference on smaller vs. larger government across party lines, whites and Latinos, and economic status.
3. On the areas of disagreement that could be influenced by public education: There is a lack of knowledge about bonds and borrowing; the specifics of state spending and revenue sources are not obvious to most Californians; and the workings of the state and local finance system are a mystery to the public.
4. On Californians support for reform of the state revenue system: There is a belief that the state could change the way it taxes ordinary Californians; strong support for spending limits but not for lowering the two-thirds threshold for increasing local taxes; and support for some tax increases and structural reforms – such as tax hikes on the wealthy, cigarettes, and alcohol, and through a split property tax roll – and strong opposition to others – increasing the state sales tax rate or VLF and extending the sales tax to services.

Thank you for your consideration of the survey results. I would be pleased to answer any questions.

PUBLIC POLICY INSTITUTE OF CALIFORNIA

Board of Directors

Raymond L. Watson, *Chairman*

Vice Chairman of the Board
The Irvine Company

Edward K. Hamilton

Chairman
Hamilton, Rabinovitz & Alschuler, Inc.

Gary K. Hart

Founder
Institute for Education Reform
California State University, Sacramento

Walter B. Hewlett

Director
Center for Computer Assisted Research
in the Humanities

David W. Lyon

President and CEO
Public Policy Institute of California

Vilma S. Martinez

Partner
Munger, Tolles & Olson LLP

Cheryl White Mason

Chief, Civil Liability Management
Los Angeles City Attorney's Office

Arjay Miller

Dean Emeritus
Graduate School of Business
Stanford University

Ki Suh Park

Design and Managing Partner
Gruen Associates

Constance L. Rice

Co-Director
The Advancement Project

Thomas C. Sutton

Chairman & CEO
Pacific Life Insurance Company

Cynthia A. Telles

Department of Psychiatry
UCLA School of Medicine

Carol Whiteside

President
Great Valley Center

Advisory Council

Mary C. Daly

Research Advisor
Federal Reserve Bank of San Francisco

Clifford W. Graves

General Manager
Department of Community Development
City of Los Angeles

Elizabeth G. Hill

Legislative Analyst
State of California

Hilary W. Hoynes

Associate Professor
Department of Economics
University of California, Davis

Andrés E. Jiménez

Director
California Policy Research Center
University of California
Office of the President

Norman R. King

Executive Director
San Bernardino Associated Governments

Daniel A. Mazmanian

C. Erwin and Ione Piper Dean and Professor
School of Policy, Planning, and Development
University of Southern California

Dean Mischynski

Director
California Research Bureau

Rudolf Nothenberg

Chief Administrative Officer (Retired)
City and County of San Francisco

Manuel Pastor

Professor, Latin American & Latino Studies
University of California, Santa Cruz

Peter Schrag

Contributing Editor
The Sacramento Bee

James P. Smith

Senior Economist
RAND

PUBLIC POLICY INSTITUTE OF CALIFORNIA

500 Washington Street, Suite 800 • San Francisco, California 94111

Phone: (415) 291-4400 • Fax: (415) 291-4401

www.ppic.org • info@ppic.org